

Nature and Purpose of Business

Chapter 1

1.1 Introduction

Business is a major economic activity concerned with the production and sale of goods and services required by people. The purpose behind most business activities is to earn money by meeting people's demand for goods and services. Business has the major influence on our daily lives.

1.2 Concept of Business

1. What is Economic activity?

Ans: Economic activities are those human activities which are undertaken to earn a source of livelihood.

2. State any one type of economic activity.

Ans: Business

3. State any two types of economic activities.

Ans: Economic activities:

(1) Business (2) Profession (3) Employment (any two)

4. What is Business?

Ans: Business is an economic activity concerned with the production and sale of goods and services undertaken for the purpose of earning profit by satisfying human needs.

1.3 Characteristics of business activities

5. Explain briefly any four characteristics of business.

Ans: Characteristics (Nature) of business:

Following are the characteristics of business:

(1) **An economic activity:** Business is considered to be an economic activity because it is undertaken with the object of earning money or source of livelihood.

(2) **Production or procurement of goods and services:** Every business enterprise either manufactures the goods or purchases the goods to be sold to consumers or users.

Goods may be either consumer goods like sugar, biscuits, note book etc. or capital goods like machinery, furniture etc.

Services include services like transportation, electricity, insurance etc.

(3) **Sale or exchange of goods and services:** Business involves sale, transfer or exchange of goods and services for value.

E.g.: Preparing food and selling it to customers in a restaurant is business.

(4) **Dealings in goods and services on a regular basis:** Business involves dealings in goods or services on a regular basis.

E.g., If a person keeps stock of TV sets and sells them regularly, it becomes a business.

- (5) **Profit earning:** One of the main purpose of business is to earn income by way of profit. That is why businessman make all possible efforts to maximize profits, by increasing the volume of sales or by reducing cost.
- (6) **Uncertainty of return:** There is no guarantee of profit in business.
- (7) **Element for risk:** Business involves an element of risk. The risks are related with certain factors like changes in consumer tastes and fashions, changes in methods of production, strike or lockout in the workplace, fire, theft, accident etc.

(Note: Students may write 4 or 5 easy points. This point is to be kept in mind while answering other similar 4 marks questions also)

6. State any two characteristics of business.

- Ans: (1) **An economic activity:** Business is considered to be an economic activity.
 (2) **Profit earning:** Business involves earning of profit

7. State any one characteristics of business.

Ans: Business is an economic activity.

1.4 Comparison of Business, Profession and Employment

8. State any four differences between business and profession.

	Basis of difference	Business	Profession
1.	Mode of establishment	Entrepreneur's decision and other legal formalities if necessary.	Membership of a professional body and certificate of practice.
2.	Nature of work	Production and distribution of goods and services.	Rendering of personalized expert services.
3.	Qualification	No minimum qualification is necessary.	Prescribed qualifications in a specified field is a must.
4.	Reward or return	Profit	fee
5.	Risk	Risk is more	Some risk is present.
6.	Transfer of interest (ownership)	It can be transferred.	Transfer is not possible
7.	Code of conduct	No code of conduct is prescribed.	Professional code of conduct is to be followed.

9. State any four differences between business and employment.

(4 Marks)

	Basis of difference	Business	Employment
1.	Mode of establishment	Entrepreneur's decision and other legal formalities if necessary.	Appointment letter and service agreement.
2.	Nature of work	Provision of goods and services to the public	Performing work as per service agreement.
3.	Qualification	No minimum qualification is necessary.	Qualification is required as prescribed by the employer.
4.	Reward or return	Profit	Salary or wages
5.	Capital investment	Required	Not required

6.	Risk	Risk is present	No or little risk
7.	Transfer of interest (ownership)	Possible with some formalities	Not possible
8.	Code of conduct	No code of conduct is prescribed.	Norms of behaviour laid down by the employer are to be followed.

10. State any two differences between business and profession.

Ans: Differences between business and profession

	Basis of difference	Business	Profession
1.	Nature of work	Provision of goods and services to the public	Rendering of personalized expert services.
2.	Reward or return	Profit earned	Professional fee

11. What is employment?

Ans: Employment refers to the occupation in which people work for others and get remunerated in return.

12. Name the economic activity in which people are rewarded with salary or wages for their work.

Ans: Employment.

13. What type of economic activity is the work of a chartered accountant?

Ans: Profession

1.5 Classification of Business Activities

Various business activities are classified into two broad categories. They are:

(1) Industry, and (2) Commerce

1.6 Industry

14. What is Industry?

Ans: Industry refers to economic activities which are concerned with conversion of resources into useful goods.

Or

Industry is a part of business activity which is concerned with the raising, production or processing of goods and materials.

e.g. Sugar industry, Cement industry

15. Explain briefly the different types of industries.

Ans: Different types of industries:

Industries may be classified into three broad categories:

They are: (1) Primary industries (2) Secondary industries (3) Tertiary industries

(1) Primary Industries are sub divided into:

(i) **Extractive industries:** These industries extract products from natural resources like soil, water etc.

E.g., farming, mining, fishing etc.

(ii) **Genetic industries:** These industries are engaged in breeding plants and animals to earn profit from their sales.

e.g., cattle breeding farms, poultry farms, nurseries raising plants.

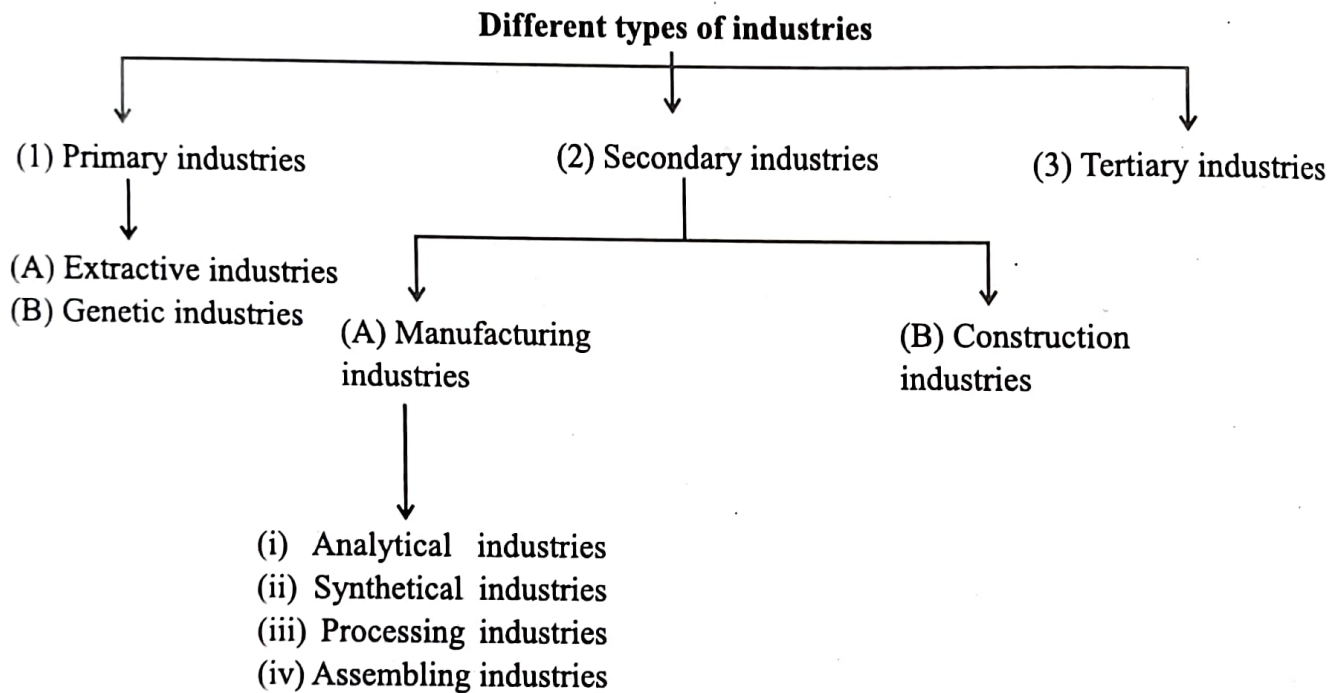
(2) Secondary Industries are:

(A) **Manufacturing industries:** These industries are engaged in producing goods through processing (i.e., conversion) of raw materials. Manufacturing industries may be:

- (i) **Analytical industries**, e.g., oil refinery.
- (ii) **Synthetical industries**, e.g., cement industry
- (iii) **Processing industries**, e.g., sugar industry
- (iv) **Assembling industries**, e.g., TV. manufacturing industry

(B) **Construction industries:** These industries are involved in the construction of buildings, dams, bridges, roads etc.,

(3) **Tertiary industries:** These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. E.g., transport, banking, insurance, warehousing, communication, advertising etc.



16. Explain briefly the different types of manufacturing industries.

Ans: The industries which are engaged in producing goods through processing (conversion) of raw materials are called manufacturing industries. E.g., sugar industry.

Types of manufacturing industries

- (1) **Analytical industries:** It is an industry which analyses and separates different elements from the same materials. e.g., oil refinery.
- (2) **Synthetical industries:** It is an industry which combines various ingredients to form a new product. e.g., cement industry.
- (3) **Processing industries:** It is an industry which involves successive stages for manufacturing finished goods. e.g., sugar industry, paper industry, cotton textile industry.
- (4) **Assembling industries:** It is an industry which assembles different component parts to make a new product. e.g., Assembling Car, computer etc.

17. What is extractive industry?

Ans: The industries which extract or draw out products from natural sources (such as soil, water etc.) are called extractive industries. Eg., Farming, mining, fishing.

18. Give an example for extractive industry.

Ans: (1) Mining
(2) Fishing (any one)

19. Give the meaning of genetic industry.

Ans: The industries which are engaged in breeding plants and animals for their use in further reproduction are called genetic industries.

or

Genetic industries refer to those activities which are undertaken for reproducing or multiplying plants and animals to earn profit from their sales.

Eg., cattle breeding farms, poultry farms, nurseries raising plants.

20. Give an example for genetic industry.

Ans: (1) Cattle breeding farms
(2) Poultry farms (any one)

21. What is manufacturing industry?

Ans: The industries which are engaged in producing goods through processing (conversion) of raw materials are called manufacturing industries. They create from utility eg., cotton textile industry, sugar industry.

22. Give an example for manufacturing industry.

Ans: (1) Cotton textile industry
(2) Sugar industry (any one)

23. What is analytical industry:

Ans: An industry which analysis and separates different elements from the same materials is called analytical industry. E.g., Oil refinery.

24. What is Synthetical industry?

Ans: An industry which combines various ingredients into a new product is called synthetical industry. e.g., cement industry.

25. Give an example for processing industry.

Ans: (1) Sugar industry
(2) Paper industry (any one)

26. What is assembling industry?

Ans: An industry which assembles different component parts to make a new product is called assembling industry.

E.g., (1) Television manufacturing units.

(2) Automobile industry

27. What is construction industry?

Ans: The industries which are involved in the construction of buildings, dams, bridges, roads etc. are called construction industries.

E.g., Building construction industries.

28. Name the industry which provides support services to other industries.

Ans: Tertiary industries e.g., transport, banking, insurance etc.

1.7 Commerce

29. What is commerce?

Ans: Commerce is a part of business which is concerned with the exchange of goods and services. It includes both trade and auxiliaries to trade.

30. State the two types of activities of commerce.

Ans: (1) Trade, and
(2) Auxiliaries to trade

31. State a branch of commerce.

Ans: Trade

32. What is trade?

Ans: Trade refers to buying and selling of goods and services.

33. What are auxiliaries to trade?

Ans: Activities which are meant for assisting trade are known as auxiliaries to trade. They include transport, communication, banking and finance, insurance, warehousing and advertising.

34. State any one auxiliary to trade.

Ans: Transport

35. State any two auxiliaries to trade.

Ans: (1) Transport and communication
(2) Banking and finance
(3) Insurance
(4) Warehousing
(5) Advertising (any two)

36. Explain briefly any four auxiliaries to trade.

Ans: Activities which are meant for assisting trade are known as auxiliaries to trade.

Important auxiliaries to trade:

(1) **Transport and communication:** Different means of transport like road, railways, ships etc. facilitate the movement of raw materials to the place of production and the finished goods from the factories to the place of consumption.

Communication facilities such as postal services and telecom services are helpful to the producer, traders and consumers to exchange information with one another.

(2) **Banking and finance:** Banks and other financial institutions help the businessmen to purchase assets, raw materials and to meet other expenses by providing funds. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances.

(3) **Insurances:** Insurance companies insure the properties like buildings, machinery, stock of goods etc. and thus help the businessmen to cover the risk of loss due to fire, theft etc.

(4) **Warehousing:** Different types of warehouses help the businessmen to store their goods in a safe place till they are demanded.

(5) **Advertising:** Advertising gives information about the price, quality, uses and other details of the product or services offered for sale and thus attracts customers.

37. Name the auxiliary to trade which provides protection against business risk.

Ans: Insurance

1.8 Objectives of Business

38. State an objective of business.

Ans: Earning of adequate profit.

39. State any two objectives of business.

Ans: (1) Earning of adequate profit.
(2) Acquisition of physical and financial resources
(3) Innovation

40. Explain briefly any four objectives of business.

Ans: The important objectives of business are:

- (1) **Earning profits:** One of the important objectives of business is to earn profits. Every business must earn adequate and reasonable profit which is so important for its survival and growth. Further, profit is a return on capital employed and also a reward for the work and the risk.
- (2) **Market standing:** A business enterprise must aim at occupying better position in the market by the supply of quality goods which the consumers want.
- (3) **Innovation:** One of the objectives of modern business is innovation. It is a necessity in the competitive world. There are two kinds of innovation in every business.
 - (i) Innovation in product or service.
 - (ii) Innovation in various skills and methods of production and supply of products and services.
- (4) **Productivity:** Every business enterprise aims at increasing the productivity through the best use of available resources. This enables a business concern to improve its efficiency.
- (5) **Acquisition of physical and financial resources:** Every business aims at acquisition of physical resources like plants, machines, offices etc., and financial resources, i.e., funds, to be able to produce and supply goods and services to its customers.
- (6) **Improving managers' performance:** Every business aims at implementing various programmes for motivating managers. This enables managers to conduct and co-ordinate business activities in an efficient manner.
- (7) **Improving workers' performance:** Every enterprise aims at improving its workers' performance by payment of fair wages and by providing other benefits. Such as housing, education, medical facilities etc.

1.8.2 Business Risks

41. What is business risk?

Ans: Business risk refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

or

Business risk is the possibility of loss arising from uncertainty.

Eg., Decline in demand for a particular product due to changes in tastes and preferences of consumers.

1.9 Nature of Business Risks

42. Explain briefly the nature / characteristics of business risks.

Ans: "Business risks" refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

Nature / characteristics of business risks:

- (1) **Business risks arise due to uncertainties:** Natural calamities like floods, earthquakes etc., change in demand and price, change in govt. policy, improvement in technology etc. are some examples of uncertainty which create risks for business.
- (2) **Risk is an essential part of every business:** Every business has some risk. No business can avoid risk. Risk can be minimised but cannot be eliminated.
- (3) **Degree of risk depends mainly upon the nature and size of business:** Type of goods and services produced and sold, and volume of production and sale are the main factors which determine the amount of risk in a business. Eg., a business dealing in fashionable items has a high degree of risk. Similarly, a large scale business generally has a higher risk.
- (4) **Profit is the reward for risk taking:** Greater the risk involved in a business higher is the chance of profit. Thus, profit is the reward for risk taking.

43. Mention any two characteristics of business risk.

- Ans: (1) Business risks arise due to uncertainties
(2) Risk is an essential part of every business
(3) Profit is the reward for risk taking

44. State any one characteristics of business risk.

- Ans: (1) Business risks arise due to uncertainties.
(2) Risk is an essential part of every business.

1.9.1 Causes of Business Risks

45. Explain briefly the causes of business risks.

Ans: Business risks arise due to number of causes.

- (1) **Natural causes:** Natural calamities like flood, earthquake, storms, heavy rains etc. may result in heavy loss of life, property and income in business.
- (2) **Human causes:** Human causes like dishonesty, carelessness or negligence of employees, stoppage work due to strike and lockout, management inefficiency etc. are also responsible for business risk.
- (3) **Economic causes:** Economic causes such as change in Govt. policies, change in technology, change in demand and supply of goods due to change in fashion and consumer tastes, increase in tax rates, increase in interest rate on borrowings etc. also cause business risks.
- (4) **Other causes:** These are unforeseen events like political disturbances, mechanical failures, fluctuations in exchange rate. etc., which lead to the possibility of business risks.

46. Mention any two causes of business risks.

- Ans: (1) **Natural causes:** Eg., Flood, earthquake etc.
(2) **Human causes:** Eg., dishonesty of employees, stoppage of work due to strike.
(3) **Economic causes:** Eg., competition, rise in interest rate for borrowing

47. State any one cause of business risk.

Ans: Natural causes, Eg., flood, earth quake etc.,

Practical Oriented Question

48. As the owner of a business unit, what risks you may face in running it.

Ans: As the owner of a business unit, while running it, I may face the risk of inadequate profits or even losses (the result of loss of property, decrease in sales and increase in production cost) due to the following causes.

- (1) **Natural causes:** Natural calamities like flood, earthquake, heavy rains, storms, famine etc.
- (2) **Human causes such as** dishonesty, carelessness or negligence of employees, stoppage of work due to strikes, lockouts and riots and management inefficiency.
- (3) **Economic causes such as** decrease in demand for goods, increase in cost of production (due increase in material price, wages and other expenses), bad debts change of technology or method of production, rise in interest rate for borrowing, higher taxes etc.
- (4) **Other causes such as,**
 - Political disturbances.
 - Mechanical failures
 - Fluctuations in exchange rates etc.

1.9.2 Starting Business – Basic factors

49. Explain briefly any four factors to be considered while starting a business.

Ans: Some of the factors to be considered while starting a business are:

- (1) **Selection of line of business:** Deciding the nature and type of business to be undertaken is the first thing to be considered by any entrepreneur of a new business. The decision will be influenced by the expected profit, customer requirements etc.
- (2) **Size of the firm:** Size of the firm or scale of its operation is another important decision to be considered while starting a business. Some factors such as confidence of the entrepreneur to create demand and to raise capital favour a large size. While uncertain market conditions and high risks will compel an entrepreneur to start a small sized business.
- (3) **Choice of form of ownership:** Depending upon certain factors such as the line of business, capital requirements, liability of owners, division of profit, legal formalities etc., the choice of suitable form of ownership is made. It may be sole proprietorship, partnership or a joint stock company.
- (4) **Location of business enterprises:** An important factor to be considered to start the business is the place where the enterprise will be located. Availability of raw materials and labour, power supply, services like banking, transportation, communication, warehousing etc., are the important factors while making a choice of location.
- (5) **Financing the proposition:** Selection of source of fund and decision about the amount of funds required to be invested on fixed assets, current assets and to meet the day to day expenses, is another important factor to be considered while starting a new business.
- (6) **Physical facilities:** Availability of physical facilities including machines and equipment, building and supportive services is a very important factor to be considered while starting a business.
- (7) **Plant layout:** The entrepreneur should draw a proper layout plan showing the arrangement of physical facilities.
- (8) **Competent and committed work force:** Deciding the number of skilled and unskilled workers and managerial staff required is another factor to be considered.
- (9) **Tax planning:** The founder of the business has to consider in advance the tax liability under various tax laws and its impact on business decisions.
- (10) **Launching the enterprise:** Finally, the entrepreneur can go ahead with actual launching of the enterprise.

50. State any two factors to be considered while starting a business.

- Ans:**
- (1) Selection of line of business.
 - (2) Size of the firm
 - (3) Choice of form of ownership
 - (4) Location of the business enterprise

Forms of Business Organisation

Chapter 2

2.1 Introduction

Various forms of business organizations are:

- (1) Sole proprietorship
- (2) Joint Hindu family business
- (3) Partnership
- (4) Cooperative societies, and
- (5) Joint stock company

1. Name any one form of business organisation.

Ans: Partnership

2.2 Sole Proprietorship

2. Give the meaning of sole proprietorship.

Ans: Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who gets all profits and bears all risks.

Or

Sole proprietorship is a business concern which is owned and managed by a single person for his exclusive benefit.

3. Give an example for sole proprietorship.

Ans: (1) Beauty parlour

(2) Retail shop (any one)

4. State any two features of sole proprietorship form of business organisation.

Ans: Features or characteristics of sole proprietorship

(1) **Ease of formation and closure:** It is easy to start and close the business. No legal formalities like registration are required for the formation of a sole proprietorship. Closure of the business can also be done easily.

(2) **Unlimited liability:** The liability of the sole proprietor is unlimited.

[Note: 'Unlimited liability' means, in case the assets of the business are not sufficient to meet (to pay) all the liabilities, the owner should pay the liabilities by using personal properties]

(3) **Sole risk bearer and profit recipient:** All the risk is borne by and all the profits are enjoyed by the sole proprietor alone.

(4) **Control:** The business is fully controlled by the sole proprietor. Sole proprietor himself takes all the important decisions and runs the business.

(5) **No separate entity:** In the eyes of law, the sole trader and his business are one and the same entity. Business does not have an identity separate from the owner.

5. **State the nature of liability of a sole proprietor.**

Ans: Liability of a sole proprietor is **unlimited**.

6. **Explain any four merits and any four demerits of sole proprietorship form of business organisation.** (8 Marks)

Ans: Some of the important **merits or advantages** of sole proprietorship form of business organisation are:

(1) **Ease of formation and closure:** It is easy to start and close the business as per the wish of the owner. No legal formalities like registration are required for the formation of a sole proprietorship. Closure of the business can also be done easily.

(2) **Quick decision making:** Sole proprietor enjoys freedom in making business decisions. It enables him to make quick decisions to take advantage of market opportunities.

(3) **Profit – a direct incentive for hard work:** A sole proprietor enjoys all the profits of the business. This provides maximum incentive to the sole trader to work hard.

(4) **Confidentiality of information (or business secrecy):** A sole trader need not publish his accounts. So, a sole proprietor can keep all the information related to the business operations confidential and maintain secrecy.

(5) **Sense of accomplishment:** There is a personal satisfaction involved in working for oneself.

Some of the **demerits (or disadvantages or limitations)** of sole proprietorship form of business organisation are:

(1) **Limited resources:** Resources of a sole proprietor are limited. Therefore, he cannot expand the size of his business.

(2) **Limited managerial ability:** Sole trader himself should assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. Therefore, he finds it difficult to manage the business especially when it expands.

(3) **Unlimited liability:** The liability of sole proprietor is unlimited. Therefore, if the business fails, then sole trader loses even his private assets.

(4) **Limited life of a business concern:** The death, insolvency or illness of a proprietor affects the business and can lead to its closure.

7. **State any two merits of sole proprietary organisation.**

Ans: Two merits of sole proprietary organisation.

(1) **Ease of formation and closure:** It is easy to start and close the business as per the wish of the owner.

(2) **Quick decision making:** Sole trader can make quick decision to take advantage of market opportunities.

8. **State any two demerits of sole proprietary organisation.**

Ans: (1) **Limited resources:** Resources of a sole trader are limited.

(2) **Unlimited liability:** The liability of a sole trader is unlimited.

2.3 Joint Hindu Family Business

9. Name the form of business organisation which is found only in India.

Ans: Joint Hindu family business.

10. In which country do you find Hindu undivided family business?

Ans: India

11. Give the meaning of Hindu undivided family business.

Ans: Hindu undivided family business refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu undivided family.

12. Which law governs Hindu undivided family in India?

Ans: Hindu law.

13. Who is the head of Hindu undivided family business?

Ans: Eldest member of the family called 'Karta'.

14. Who is Karta?

Ans: Karta is the eldest member of the Hindu undivided family (HUF). Karta manages and controls the business of HUF.

15. Who are co-parceners?

Ans: The members of HUF who own the HUF business are called co-parceners.

16. State the nature of liability of Karta.

Ans: Karta's liability is unlimited.

17. State the nature of liability of co-parceners.

Ans: Co-parceners liability is limited (to their share of co-parcenary property of the business)

18. State any two features of Hindu undivided family business.

Ans: Features of HUF business:

(1) **Liability:** The liability of Karta is unlimited. However, the liability of co-parceners is limited.

(2) **Control:** The control of the family business lies with the Karta. He takes all the decisions.

(3) **Minor members:** Minors can also be members of the business.

19. State any two merits of HUF business.

Ans: Merits of HUF business:

(1) **Effective control:** Karta manages and controls the business effectively.

(2) **Continued business existence.**

(3) **Limited liability of members:** The liability of all the co-parceners except the Karta is limited to their share in the business.

20. State any two limitations of HUF business.

Ans: (1) **Limited resources:** The HUF business faces the problem of limited resources.

(2) **Unlimited liability of Karta**

(3) **Limited managerial skills.**

2.4 Partnership

21. Define partnership.

Ans: The Indian Partnership Act, 1932 defines partnership as, "the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all."

22. State the minimum number of persons required to set up a partnership.

Ans: Two persons

23. Which Act governs partnership business in India?

Ans: The Indian Partnership Act, 1932.

24. Explain the features of partnership.

Ans: Features or characteristics of partnership form of business organisation.

(1) **Formation through agreement:** The partnership form of business organisation comes into existence through a legal agreement between two or more persons.

In the agreement, the terms and conditions governing the relationship among the partners, sharing of profits and losses and the manner of conducting the business are specified.

(2) **Presence of business:** The agreement between persons must be to carry on some lawful business.

(3) **Sharing of profits:** The objective of partnership business is to earn profits and there should be sharing of such profits amongst all the partners.

(4) **Unlimited liability:** The partners of a firm have unlimited liability. Personal assets may be used for repaying business debts in case the business assets are insufficient. Further, the partners are jointly and individually liable for payment of debts.

(5) **Risk bearing:** The partners bear the risks involved in running a business as a team.

(6) **Decision making and control by partners:** Generally, the partners of a firm make decisions with mutual consent. A firm is managed by the joint efforts of all the partners.

(7) **Lack of continuity:** The death, retirement, insolvency or insanity of any partner may bring the business to an end. Thus, there is lack of continuity of business in partnership.

(8) **Membership:** The minimum number of members required (needed) to start a partnership firm is two, while the maximum number, is **ten** in case of **banking business** and **twenty** in case of **other business**.

(Note: The maximum number is **fifty** as per the provisions of the Indian Companies Act, 2013)

(9) **Mutual agency:** The business of partnership may be carried on by all the partners or any of them acting for all. In other words, every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.

25. State the nature of liability of partners.

Ans: The liability of partners is unlimited. (or unlimited liability)

26. Explain any four merits and any four limitations of partnership form of business.

Ans: Merits or advantages of partnership form of business:

(1) **Ease of formation and closure:** A partnership firm can be formed easily by means of an agreement between the prospective partners. Even the registration of a partnership firm is not compulsory. Closure of the firm too is an easy task.

- (2) **Balanced decision making:** Two heads are better than one. In partnership, partners discuss the business problems and take balanced decisions in the interest of the business.
- (3) **More funds:** A partnership firm can collect more funds as capital is contributed by a number of partners. It can be used to undertake additional operations.
- (4) **Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners. This reduces the burden and stress on individual partners.
- (5) **Secrecy:** A partnership firm need not publish its accounts. Hence, it can maintain its business secrecy.

Limitations of partnership form of business:

- (1) **Unlimited liability:** The liability of partners of a firm is unlimited, joint and several. This discourages many people from becoming partners of a firm.
- (2) **Limited resources:** The capital that can be collected from limited number of partners is limited. As a result, partnership firms face problems in expansion of the business.
- (3) **Possibility of conflicts:** Difference in opinion on some issues may lead to disputes between partners. This disturbs the smooth working of the business.
- (4) **Lack of continuity:** A partnership firm lacks continuity of existence. The death, retirement, insolvency or insanity of any partner may put an end to the partnership business.
- (5) **Lack of public confidence:** Owing to the absence of strict government control and lack of publicity of its accounts, a partnership firm cannot enjoy public confidence.

Types of partners

27. State any one type of a partner.

Ans: Active partner

28. Who is an active partner?

Ans: Active partner: An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm. These partners take actual part in carrying out business of the firm on behalf of other partners.

29. Who is a sleeping partner?

Ans: Sleeping or dormant partner: Partners who do not take part in the day to day activities of the business are called sleeping partners. A sleeping partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.

30. Who is a secret partner?

Ans: Secret partner: A secret partner is one whose association with the firm is unknown to the general public. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.

31. Who is a Nominal partner?

Ans: Nominal partner: A nominal partner is one who allows the use of his name by a firm, but does not contribute to its capital. He does not take active part in managing the firm, does not share its profit or losses but is liable, to the third parties for the repayment of the firm's debts.

32. Who is a partner by estoppel?

Ans: Partner by estoppel: A person is considered a partner by estoppel if, through his own initiative, conduct or behaviour, he gives an impression to others that he is a partner of the firm. Such partners are held liable for the debts of the firm.

33. Compare active partner with partner by estoppel by taking capital contribution and sharing of profits and losses as bases.

Ans: Comparison between active partner and partner by estoppel.

Sl. No.	Basis	Active partner	Partner by estoppel
1.	Capital contribution.	Contributes capital	Does not contribute capital.
2.	Sharing of profits and losses	Shares profits and losses	Does not share profits and losses.

34. Who is a minor partner?

Ans: A minor (A person below the age of 18 years) admitted to the benefits of a partnership firm is called a minor partner.

Types of Partnership

35. State any one type of partnership.

Ans: Particular partnership

36. What is partnership at will?

Ans: If the existence (or continuation) of partnership depends on the will and wish of partners, it is called partnership at will.

37. What is particular partnership?

Ans: Partnership formed for the accomplishment of a particular project, say, construction of a building or an activity to be carried on for a specified time period is called particular partnership.

38. What is general partnership?

Ans: The partnership in which the liability of all the partners is unlimited is called general partnership.

39. What is limited partnership?

Ans: A partnership in which the liability of at least one partner is unlimited whereas other partners may have limited liability is called limited partnership.

40. Give the meaning of unlimited liability.

Ans: Unlimited liability means, in case the assets of the business are not sufficient to meet (to pay) all the liabilities, the owner should pay the liabilities by using personal properties.

Partnership Deed

41. Give the meaning of partnership deed.

Ans: The written agreement which specifies the terms and conditions that govern the partnership is called the partnership deed. OR

If the partnership agreement is in writing, duly stamped and signed by all the partners, it is called partnership deed.

42. State any two contents of partnership deed.

Ans: Contents of partnership deed:

- (1) Name of the firm
- (2) Nature of business
- (3) Duration of business
- (4) Distribution of profits and losses
- (5) Interest on capital and interest on drawings
- (6) Procedure for dissolution of the firm

Registration

43. Is Registration compulsory for partnership firms in India?

Ans: No. Registration is not compulsory. It is optional.

44. State any one consequence of non-registration of partnership firm.

Ans: The firm cannot file a suit against third parties.

45. State any two consequences of non-registration of partnership firm.

- Ans:**
- (1) A partner cannot file a suit against the firm or other partners.
 - (2) A firm cannot file a suit against third parties.
 - (3) A firm cannot file a case against the partners.

2.5 Cooperative Society

46. Give the meaning of co-operative societies.

Ans: The co-operative society is a voluntary association of persons, who join together with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen.

According to E.H. Calvert, "Cooperative is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interests of themselves.

47. Which Act governs cooperative societies in India?

Ans: Cooperative Societies Act, 1912.

48. Is registration compulsory for cooperative societies in India?

Ans: Yes. Registration is compulsory

49. State the minimum number of persons required to form a co-operative society.

Ans: Ten adult persons.

50. State the minimum and maximum number of members in cooperatives.

Ans: Minimum → Ten adult persons.

Maximum → Unlimited

51. State any two features cooperative societies.

Ans: (1) **Voluntary membership:** The membership of a cooperative society is voluntary.

(2) **Legal status:** Cooperative society enjoys separate legal identity.

(3) **Limited liability:** The liability of the members of a cooperative society is limited.

(4) **Service motive:** Service is the main motive of cooperative society. (any two points)

52. State the nature of liability of the members of cooperative societies.

Ans: Limited liability.

53. State the main objective of cooperative societies.

Ans: Service

54. Explain any four merits and any four limitations of cooperative societies.

Ans: The cooperative society offers many **benefits**. Some of the **advantages** of the cooperative form of organisation are:

- (1) **Ease of formation:** The co-operative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities.)
- (2) **Equality in voting status or equal voting rights:** The principle of 'one man one vote' governs the co-operative society. Each member is entitled to equal voting rights.
- (3) **Limited liability:** The liability of members of a co-operative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.
- (4) **Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a co-operative society.
- (5) **Economy in operations:** The members generally offer honorary services to the society. Elimination of middlemen helps in reducing costs. The risk of bad debts is lower.
- (6) **Support from government:** The co-operative society finds support from the government in the form of low taxes, subsidies, and low interest rates on loans.

Limitations

The cooperative form of organization suffers from the following limitations:

- (1) **Limited resources:** Resources of a cooperative society is limited. Because it consists of capital contributions of the members with limited means.
- (2) **Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.
- (3) **Lack of secrecy:** As a result of open discussions in meetings of members as well as disclosure obligations as per the Societies Act, it is difficult to maintain secrecy about the operations of a cooperative society.
- (4) **Government control:** Cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organization by the state cooperative departments also negatively affects its freedom of operation.
- (5) **Differences of opinion:** Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making.

55. State the voting principle in cooperative societies.

Ans: 'One man one vote'.

56. State any two advantages of cooperative societies.

Ans: (1) **Ease of formation:** The cooperative society can be started with a minimum of ten members. The registration procedure is simple.

(2) **Limited liability:** The liability of members of a cooperative society is limited.

57. State any two limitations of co-operative societies.

Ans: (1) **Limited resources:** Resources of co-operative society are limited.

(2) **Lack of secrecy:** It is difficult to maintain secrecy about the operations of a co-operative society.

2.5.1 Types of Co-operative Societies

58. Explain the types of Co-operative societies.

Ans: Types of Co-operative societies:

- (1) **Consumers' cooperative societies:** The societies formed by consumers to protect their interest are called consumers' cooperative societies. They aim at the supply of better quality products at reasonable prices.
- (2) **Producers' cooperative societies:** The societies formed by small producers to protect their interest are called producers' cooperative societies. They supply raw materials, equipment and other input to the members and also buy their output for sale.
- (3) **Marketing cooperative societies:** The societies formed by small producers to help them in selling their products are called marketing cooperative societies. They collect the output of individual members and perform marketing functions like transportation, warehousing, packaging etc, to sell the output at the best possible price.
- (4) **Farmers' cooperative societies:** The societies formed by farmers to protect their interest are called farmers' cooperative societies. Members jointly take up farming activities. The societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops.
- (5) **Credit cooperative societies:** The societies formed for providing easy credit on reasonable terms to the members are called credit cooperative societies. These societies provide loans to members at low rate of interest.
- (6) **Housing cooperative societies:** The societies formed to help people with limited income to construct house at reasonable costs are called housing cooperative societies. These societies provide flats or plots to the members.

59. Mention any one type of co-operative society.

Ans: Consumers' cooperative societies.

60. State any two types of cooperative societies.

Ans: (1) Consumers' cooperative societies.

(2) Producers' cooperative societies.

61. Give the meaning of consumers' cooperative societies.

Ans: The societies formed by consumers to protect their interest are called consumers' cooperative societies. They aim at the supply of better quality products at reasonable prices.

62. Give the meaning of producers' cooperative societies.

Ans: The societies formed by small producers to protect their interest are called producers' cooperative societies. They supply raw materials, equipment and other input to the members and also buy their output for sale.

63. Give the meaning of marketing cooperative societies.

Ans: The societies formed by small producers to help them in selling their products are called marketing cooperative societies. They collect the output of individual members and perform marketing functions like transportation, warehousing, packaging etc. to sell the output at the best possible price.

64. Give the meaning of farmers' cooperative societies.

Ans: The societies formed by farmers to protect their interest are called farmers' cooperative societies. Members jointly take up farming activities. The societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops.

65. Give the meaning of credit cooperative societies.

Ans: The societies formed for providing easy credit on reasonable terms to the members are called credit cooperative societies. These societies provide loans to members at low rate of interest.

66. Give the meaning of housing cooperative societies.

Ans: The societies formed to help people with limited income to construct house at reasonable costs are called housing cooperative societies. These societies provide flats or plots to the members.

2.6 Joint Stock Company

67. Which Act governs the joint stock companies in India?

Ans: The Companies Act, 2013 (Earlier, Companies Act, 1956)

68. Give the meaning of joint stock company.

Ans: A joint stock company is an artificial person having a separate legal entity, perpetual succession and a common seal.

69. Define a joint stock company.

Ans: According to the Companies Act, 2013, company means "a company incorporated under this Act or any of the previous company laws".

Or

According to Prof. Haney, "Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

70. Explain the features of joint stock company.

Ans: Features or characteristics of a joint stock company.

- (1) **Lengthy formation procedure:** The formation of a company involves time consuming, expensive and complicated process. It involves the preparation of several documents. Registration of a company is compulsory as the Companies Act, 2013 or any previous company law.
- (2) **Artificial person:** A company is created by law and exists independent of its members. A company can own property, borrow money and can enter into contracts in its own name. Therefore, it is an artificial person.
- (3) **Separate legal entity:** A company has separate legal existence quite different from that of its members.
- (4) **Perpetual succession:** A joint stock company has a perpetual succession or continuous existence. Members may come and members may go, but the company goes on until it is wound up according to law.
- (5) **Management and control:** The management and control of the affairs of the company is undertaken by the Board of Directors, elected by the members.

- (6) **Limited liability:** The liability of the members is limited to the extent of the capital contributed by them in a company. The members can be asked to contribute to the loss only to the extent of the unpaid amount of shares held by them.
- (7) **Common seal:** The company being an artificial person acts through its board of directors. The board of directors enters into an agreement with others by indicating the company's approval through a common seal. The common seal is the seal on which the name of the company is engraved.
- (8) **Risk bearing:** The risk of losses in a company is borne by all the shareholders.

71. Explain any four merits and any four limitations of a joint stock company.

Ans: Merits or advantages of a joint stock company are:

- (1) **Limited liability:** The liability of the shareholders of a company is limited to the extent of the face value of shares held by them. This reduces the degree of risk borne by an investor.
- (2) **Transferability of shares:** The shareholders of a public company can transfer the shares held by them to others. Thus, shareholders can convert their holdings into cash at any time. This encourages investment of funds in industrial and commercial undertakings.
- (3) **Perpetual existence:** As a separate legal entity, a company enjoys perpetual (i.e. continuous) existence. Its life is not affected by death, insolvency or insanity of its members.
- (4) **Scope for expansion:** A company is able to collect huge amount of funds. This provides greater scope for expansion.
- (5) **Professional management:** A company can avail of the services of expert managers who are professionally qualified. This leads to balanced decision making and greater efficiency in the company's operations.

Limitations of a company:

- (1) **Complexity in formation:** The formation of a company is more complex. It involves time consuming, expensive and complicated process. Several documents are to be prepared and legal formalities are to be complied with.
- (2) **Lack of secrecy:** It is difficult to maintain complete secrecy about the operations of company. This is because each public company has to provide a lot of information to the office of the Registrar of Companies.
- (3) **Impersonal work environment:** The large size of a company makes it difficult for the owners and top management to maintain personal contact with the employees and customers.
- (4) **Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions such as audit, filing of reports, etc. It has to obtain various certificates from Registrar of Companies, SEBI and other govt. agencies.
- (5) **Delay in decision making:** Communication and approval of various proposals may cause delay in taking decisions.
- (6) **Conflict in interests:** There may be conflict of interest amongst various stakeholders (i.e., shareholders, employees and others) of a company.

72. State any two merits of joint stock company.

Ans: (1) Limited liability: The liability of shareholders of a company is limited.

(2) **Professional management:** A company can avail of the services of professional managers.

73. State any two limitations of joint stock company.

Ans: (1) **Complexity in formation:** The formation of a company involves time consuming, expensive and complicated process.

(2) **Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions.

2.6.1 Types of Companies

74. State any one type of joint stock company.

Ans: (1) Private limited company.

(2) Public limited company

75. State any two features of a private company.

Ans: (1) A private company has a minimum of 2 and a maximum of 50 members.

(2) A private company restricts the right of its members to transfer shares.

(3) A private company does not invite public to subscribe to its share capital.

(4) A private company must have a minimum paid up capital of ₹ 1 lakh.

(5) A private company must use the word "Private limited" after its name.

76. State any one feature of a private company.

Ans: (1) A private company has a minimum of 2 and a maximum of 50 members.

77. State the minimum and the maximum number of members in a private company.

Ans: Minimum → 2 members

Maximum → 50 members

78. Mention the minimum number of members in a private company.

Ans: 2 members

79. Mention the maximum number of members in a private company.

Ans: 50 members

80. Which type of company restricts the free transferability of its shares?

Ans: Private limited company

81. State any two privileges of a private company as against a public company.

Ans: (1) A private company can be formed by only two members.

(2) There is no need to issue a prospectus.

(3) A private company needs to have only two directors.

(4) It can start business as soon as it receives the certificate of incorporation

82. State any two features of a public company.

Ans: (1) A public company has a minimum of 7 members and no limit on maximum members.

(2) A public company has no restriction on transfer of shares.

(3) A public company is not prohibited from inviting the public to subscribe to its share capital.

(4) A public company has a minimum paid up capital of ₹ 5 lakhs.

83. State any one feature of a public company.

Ans: A public company has no restriction on transfer of shares.

84. State the minimum and the maximum number of members in a public company.

Ans: Minimum → 7 members

Maximum → No limit

85. Mention the minimum number of members in a public company.

Ans: 7 members

86. Mention the maximum number of members in a public company.

Ans: No limit. (unlimited)

87. Name the type of company in which its shares are freely transferable.

Ans: Public limited company.

88. State any two differences between public and private companies.

Ans: Differences between a public company and a private company.

Sl. No.	Basis	Public company	Private company
1.	Members	Minimum → 7 members Maximum → Unlimited	Minimum → 2 Maximum → 50
2.	Minimum number of directors	three	two
3.	Minimum paid up capital	₹ 5 lakh	₹ 1 lakh
4.	Transfer of shares	No restriction	Restriction on transfer

Practical Oriented Question

89. You are planning to start a new business. Make a list of any five factors you consider while selecting a suitable form of business organisation.

Ans: While planning to start a new business, I will consider the following factors to select a suitable form of business organisation:

(1) Cost and ease in setting up the organisation.

(2) Liability

(3) Continuity

(4) Management ability

(5) Capital considerations

(6) Degree of control

(7) Nature of business